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SUBJECT: AMBASSADOR AND STATE MINISTER TUZMEN DISCUSS TRADE
AND REGIONAL ECONOMIC COOPERATION

11. (SBU) Summary: The highlight of the Ambassador's October 14 call on State Minister Kursad Tuzmen was that -- for the first time in living memory -- Tuzmen did not push for U.S. lifting of textile quotas, saying the strong lira meant Turkish exporters could not even fill existing quotas. Tuzmen stressed his belief that Turkey could only prosper if its neighbors enjoyed sustained economic growth, and that the best way to achieve this would be to encourage greater regional economic cooperation, including production sharing agreements in Turkey's Economic Free Zones. The Minister said Turkish exports to Iraq were booming, and could reach \$1.8 billion this year. The GOT will continue to press for more trade with other neighbors, and hopes trade will encourage accelerated reform in places such as Iran and Syria. End Summary.

12. (SBU) Ambassador began his October 14 call on State Minister (for Trade) Kursad Tuzmen by briefly outlining his thoughts on how to enhance the economic relationship. He noted that Turkey's macroeconomic situation is improving, but the country needs to resolve some specific investment disputes that are serving as a disincentive to other American investment, and also needs to shift to higher-value added production and exports, particularly in light of the demise of the Multi-Fiber Agreement on January 1, 2005. He suggested that non-textile QIZs might be a way to attract more investment and move up the value chain.

13. (SBU) Tuzmen predicted that exports would continue to drive growth in Turkey. Since 1997, he has pursued a policy of enhancing trade with Turkey's neighbors. In those six years, the share of Turkish exports to neighboring countries has risen from 3 percent to 12 percent; his goal is to reach 30 percent. "The regimes are not important to me -- I'm just trying to increase trade."

14. (SBU) Ambassador interjected that the nature of regimes does matter, as the lack of freedom in authoritarian regimes makes them less reliable trading partners. He pointed to recent World Bank and UN studies that concluded that one of the major impediments to growth in the Arab world is bad governance. Tuzman acknowledged the point, but said "they are my neighbors, and I have to live with them." He added that the export of Turkish goods and culture would encourage reform and liberalization in neighboring regimes, and suggested that Iran already was undergoing significant change.

15. (SBU) The Minister argued that the biggest problem in the region is low income, and that only trade and sustained economic growth would bring sustainable peace. Moreover, Turkey could not prosper as long as its neighbors remained poor. His hope is to pursue regional production sharing arrangements and development "clusters" (following Michael Porter's ideas), in which Turkey could shift some low-end production to its neighbors and move to higher end production itself. He suggested that Turkey's Economic Free Zones, which enjoy substantial tax advantages, would be an ideal location for multinational clusters.

16. (SBU) Tuzmen said that designating parts of the Economic Free Zones as Qualifying Industrial Zones could be useful, but the U.S. needed to do a better job explaining how QIZ status could be helpful. Most high tech goods, he noted, already enjoy duty-free status in the U.S., so the benefits of QIZ status were not clear. Ambassador responded that the GOT should look at QIZs not only for their tariff-free status, but as magnets for attracting investment, particularly into higher value-added sectors. He noted that Turkey remained highly dependent on low-end exports,

including textiles and garments.

17. (SBU) Tuzmen agreed. He noted that Turkey had long pushed the U.S. to lift textile quotas ahead of the termination of the Multi-Fiber Agreement. Now, however, the Turkish lira's appreciation had so hurt the competitiveness of Turkey's textile/garment industry that it could not even fill existing quotas. He suggested agro-industry, organic agriculture, and industrial production in the GAP region as possibilities for future QIZs incorporated into an Economic Free Zone.

18. (SBU) Turning to Iraq, the Minister said Turkish exports were rising rapidly and could reach \$1.8 billion this year (this is higher than his previous estimates). He agreed that Turkish construction companies were also well placed to win significant amounts of business in reconstruction subcontracts. He reiterated his view that greater trade and economic activity were crucial to peace and stability in Iraq, and said Turkey was "wide open" to ideas on how to increase bilateral commerce.

EDELMAN